

AUDIT RECOMMENDATIONS
WATER QUALITY PROGRAM
FINANCIAL MANAGEMENT SECTION

Recent State audit recommendations and responses proposed by the Financial Management Section were presented and discussed at the April 7, 2004, Financial Assistance Council (FAC) meeting. The following draft language on policy and procedure to address the audit recommendations has been modified based on input provided during the FAC meeting. I have listed some of the items discussed and suggestions made during the meeting, and request that you provide any further input and suggestions for consideration regarding this policy/procedure by April 30, 2004.

Background and Proposed Response

As the result of audit recommendations presented by the State Auditors Office, Financial Management Section staff are working with other Ecology program staff involved in the management of grants and loans on updates and revisions to the "Administration of Ecology Grants and Loans" (Yellow Book). The amount of backup documentation to support a request for reimbursement and the documentation of on-site visits are work items identified to meet the auditor's recommendations, which are as follows:

"We recommend that the Department obtain and review detailed invoices or receipts to ensure that costs are allowable and support the reimbursement requests." (including refinance projects)

"We further recommend that Department staff document on-site visits in the project files for those projects as required."

To address the audit recommendations, the Financial Management Section has proposed the following **draft** language:

A. Risk-Based Determination for Increased Oversight

The Financial Management Section proposes to require that selected recipients provide the Department (Ecology) with copies of invoices and receipts along with their payment requests in order to provide the Department's financial manager with verification and documentation of allowable cost. This documentation will be kept in the project financial record along with the payment request. Selection of recipients for increased oversight will be accomplished through a simple risk-based determination made by the financial and/or project manager. The following risk-based process will be employed:

1. If at least one of the following conditions exist for a loan or grant recipient, an increased level of project oversight may be warranted:
 - a. First-time recipient, recipient staff, or recipient whose last loan or grant ended more than three (3) years prior to the current loan or grant offer.
 - b. First-time implementation projects.
 - c. Internal control audit finding within the last three (3) years or with the last project on record.
 - d. Poor performance documented on existing or past projects.

- e. Innovative or unusual pilot project or a complex project, including those with multiple funding sources.
- f. Recipients that receive a 50% up-front disbursement of grant funds.

If a loan or grant recipient is selected for increased oversight, the recipient will be notified as such either in the loan or grant offer letter or during the loan or grant negotiation period. The requirement for payment documentation will be established in the loan or grant agreement as a special condition. The requirement for payment documentation will not be limited to selected projects. The project manager or financial manager may require payment verification documentation from any recipient, where such verification is deemed necessary to address cost eligibility.

In addition, the Department will continue to take measures to ensure that payment requests and progress reports are received in a timely manner, as set forth in loan and grant agreements. As part of this effort, the Department will continue to provide recipient training on loan and grant administration with emphasis on payment requests, eligible costs, backup documentation, and reporting requirements.

Refinance projects will require submittal of approval letters for the facilities plan and plans and specifications, as well as the Declaration of Construction of Water Pollution Control Facilities. Additional invoices or other documentation necessary to verify allowable costs will be requested from refinance applicants as needed.

B. On-Site Visit Policy and Procedure

On-site visits shall be conducted by project managers in order to document and verify project status, implementation, progress, and/or completion. On-site visits will generally be conducted as deemed necessary by the project manager. It is recommended that at least one on-site visit be conducted for every project where ground work is being conducted. This would also be applicable where training, public education, and workshop-type projects are being implemented. For projects that do not involve ground work, the project manager may opt to conduct an office visit to review records or may arrange a conference call or other method to verify progress and performance. If only one site visit is conducted, that visit should be at or near project completion to ensure that performance, outcomes, and results are assessed.

Some projects may require additional site visits or progress verification based on complexity, cost, and/or longevity. The project manager may determine the need for additional site visits based on knowledge of the loan or grant recipient (Risk-Based Determination). If conditions exist for an increased level of oversight, the project manager may conduct additional on-site visits as one mechanism to address the risk.

Each on-site visit will be documented using a form that includes the following minimum information:

- Project Title
- Grant/Loan Number
- Purpose of Visit
- Preparer
- Date

- Time
- Location
- Project Contact
- Brief Description of Activity or Product
- Progress on Applicable Subtask or Performance Requirement
- Other Pertinent Information

The collection of photographs, where applicable, is highly recommended to augment the written portion of the on-site form. The format of the form will be determined by the Department's project manager.

Copies of all on-site visit documentation will be included in the grant/loan project file. In addition, copies of documentation of any meetings or telephone conversations, or other information related to verification of project progress, shall be included in the project file.

Summary of FAC Meeting Discussion and Suggestions on Risk-Based Strategy

The following is a summary of most of the items discussed during this portion of the FAC meeting.

- Small projects tend to have more problems due to less sophistication in accounting and grant administration.
- Multiple funding sources create more complicated accounting and may be higher risk for problems.
- Recipients are already required to meet many documentation, reporting, and audit requirements and if too many more are added, it may reduce the program's appeal to returning and new recipients.
- Suggestions were made with regard to selecting a certain percentage of recipients to require backup documentation, with selection from high-cost and low-cost projects and random selection in between.
- It was pointed out that many recipients are audited by the state already and these audit reports may be utilized in lieu of requesting backup documentation.
- Training of recipients on grant/loan management and administration is key to preventing problems.
- Backup documentation could be provided on all first payment vouchers and/or for certain items that are more typically problematic, such as time sheets.
- A consolidated look at audit recommendations, with a response that we are addressing them through:
 - Selecting higher-risk projects for increased oversight
 - Providing recipient training on grant/loan administration and documentation
 - Initiating performance measures documentation and tracking
 - Etc.
- Site visit documentation could be shared for projects with multiple funding sources.
- If only one site visit is performed, it should be at the end of the project.